



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT EXAMINATION OF THE
PIKE COUNTY SHERIFF**

Calendar Year 1998

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EXECUTIVE SUMMARY

PIKE COUNTY CHARLES KEESEE, SHERIFF CALENDAR YEAR 1998 FEE AUDIT

The Pike County Sheriff's 1998 fee audit was contracted to Berger & Ross, PLLC, Certified Public Accountants, through a request for proposal. The audit revealed no compliance issues and one internal control issue; the Sheriff has a lack of adequate segregation of accounting duties. The audit also revealed that the Sheriff's office had \$1,131,693 in gross receipts for the year. Of this amount, \$163,550 was turned over to the Pike County Fiscal Court as surplus funds. Furthermore, the Sheriff successfully closed out his Operating Fund and County Fund with the State Treasurer.



Edward B. Hatchett, Jr.
Auditor of Public Accounts

To the People of Kentucky
Honorable Paul E. Patton, Governor
John P. McCarty, Secretary
Finance and Administration Cabinet
Mike Haydon, Secretary, Revenue Cabinet
Honorable Karen Gibson, Pike County Judge/Executive
Honorable Charles Keesee, Pike County Sheriff
Members of the Pike County Fiscal Court

The enclosed report prepared by Berger & Ross, PLLC, Certified Public Accountants, presents the statement of receipts, disbursements, and excess fees of the Sheriff of Pike County, Kentucky, as of December 31, 1998.

We engaged Berger & Ross, PLLC, to perform the financial audit of this statement. We worked closely with the firm during our report review process; Berger & Ross, PLLC evaluated the Pike County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Enclosure

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To the People of Kentucky

Honorable Paul E. Patton, Governor

John P. McCarty, Secretary

Finance and Administration Cabinet

Mike Haydon, Secretary, Revenue Cabinet

Honorable Karen Gibson, CPA, County Judge/Executive

Honorable Charles Keese, Pike County Sheriff

Members of the Pike County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of receipts and disbursements of the Sheriff of Pike County, Kentucky, and the statement of receipts, disbursements, and fund balances of the Sheriff's operating fund and county fund with the State Treasurer for the year ended December 31, 1998. These financial statements are the responsibility of the Pike County Sheriff. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards, Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff is required to prepare the financial statements on a prescribed basis of accounting that demonstrates compliance with the cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than generally accepted accounting principles. This cash basis system does not require the maintenance of a general fixed asset group or general long-term debt group of accounts. Accordingly, the accompanying financial statements are not intended to present financial position and results of operations in conformity with generally accepted accounting principles.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the receipts and disbursements of the Sheriff and the receipts, disbursements, and fund balance of the Sheriff's operating fund and county fund with the State Treasurer for the year ended December 31, 1998, in conformity with the basis of accounting described above.

To the People of Kentucky
Honorable Paul E. Patton, Governor
John P. McCarty, Secretary
Finance and Administration Cabinet
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Honorable Charles Keesee, Pike County Sheriff
Members of the Pike County Fiscal Court
(Continuation)

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following area of noncompliance:

- The Sheriff Has A Lack Of Adequate Segregation Of Duties

In accordance with Government Auditing Standards, we have also issued a report dated July 17, 2000, on our consideration of the Sheriff's compliance with certain laws and regulations and internal control over financial reporting.

A handwritten signature in black ink, appearing to read "Berger & Ross", with a long horizontal flourish extending to the right.

Berger & Ross, PLLC

Audit fieldwork completed -
July 17, 2000

PIKE COUNTY
CHARLES KEESEE, SHERIFF
STATEMENT OF RECEIPTS AND DISBURSEMENTS
Calendar Year 1998

Receipts

| | | | |
|--|----|------------|----------------|
| Federal Payments for Patrolling Lake | | \$ | 32,347 |
| State Fees For Services: | | | |
| Finance And Administrative Cabinet | | | 74,377 |
| Sequestered Jurors | | | 1,697 |
| KLEFPF Grant | | | 27,771 |
| Highway Grant | | | 1,634 |
| Circuit Court Clerk: | | | |
| Security Fees | | | 28,233 |
| Arrest Fees | | | 920 |
| Fiscal Court | | | |
| DARE Reimbursement | | | 1,627 |
| Contribution | | | 89,687 |
| County Clerk: | | | |
| Delinquent Land Sales | | | 63,049 |
| Commission on Taxes | | | 500,633 |
| Fees Collected for Services: | | | |
| Auto Inspections | \$ | 15,629 | |
| Accident/Police Reports | | 310 | |
| Serving Papers | | 52,036 | |
| Executions | | 420 | |
| Carrying Concealed Deadly Weapon Permits | | 8,226 | |
| Transporting Prisoners/Patients | | 11,976 | |
| Insurance Reimbursement | | 1,332 | |
| DARE Contributions | | 1,627 | |
| Security Reimbursement | | 201,432 | |
| Fuel Tax Reimbursement | | 1,391 | |
| Travel Fee | | 15 | |
| Interest Earned | | 14,611 | |
| Miscellaneous | | <u>713</u> | <u>309,718</u> |
| Gross Receipts(Carried Forward) | | \$ | 1,131,693 |

The accompany notes are an integral part of the financial statements

PIKE COUNTY
CHARLES KEESEE, SHERIFF
STATEMENT OF RECEIPTS AND DISBURSEMENTS
Calendar Year 1998
(Continued)

| | | |
|---------------------------------|--|--------------|
| Gross Receipts(Carried Forward) | | \$ 1,131,693 |
|---------------------------------|--|--------------|

Disbursements

| | | |
|--|--------------|--|
| Executions | \$ 592 | |
| Jury Meals | 1,697 | |
| Carrying Concealed Deadly Weapon Permits | <u>5,486</u> | |

| | | |
|---------------------|--|--------------|
| Total Disbursements | | <u>7,775</u> |
|---------------------|--|--------------|

| | | |
|--------------|--|--------------|
| Net Receipts | | \$ 1,123,918 |
|--------------|--|--------------|

Payments to State Treasurer:

| | | |
|--------------------|----------------|------------------|
| 75% Operating Fund | \$ 960,368 | |
| 25% County Fund | <u>163,550</u> | <u>1,123,918</u> |

| | | |
|------------------------------------|--|--------------------|
| Balance Due at Completion of Audit | | <u><u>\$ -</u></u> |
|------------------------------------|--|--------------------|

* Includes reimbursed expenses in the amount of \$469,715 for the audit period.
See Note 1 of the Notes to the Financial Statements.

The accompanying notes are an integral part of the financial statements.

PIKE COUNTY
CHARLES KEESEE, SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND FUND BALANCES OF THE
SHERIFF'S OPERATING FUND AND COUNTY FUND WITH STATE TREASURER

Calendar Year 1998

| | 75% Operating Fund | 25% County Fund | Totals |
|---|--------------------------|-----------------------|---------------------|
| Fund Balance - January 1, 1998 | \$ 2,521 | \$ 108,107 | \$ 110,628 |
| <u>Receipts</u> | | | |
| Fees Paid to State- Operating Funds (75%) | 960,368 | - | 960,368 |
| Fees Paid to State - County Funds (25%) | - | 163,551 | 163,551 |
| Total Funds Available | <u>\$ 962,889</u> | <u>\$ 271,658</u> | <u>\$ 1,234,547</u> |
| <u>Disbursements</u> | | | |
| Pike County Government | \$ 860 | \$ 271,658 | \$ 272,518 |
| Personnel Services- | | | |
| Official's Statutory Maximum | 48,726 | - | 48,726 |
| Deputies Salaries | 578,458 | - | 578,458 |
| Fringe Benefits | 95,484 | - | 95,484 |
| Operating Expenses | 235,362 | - | 235,362 |
| Capital Outlay | 3,999 | - | 3,999 |
| Total Disbursements | <u>\$ 962,889</u> | <u>\$ 271,658</u> | <u>\$ 1,234,547</u> |
| Fund Balance - December 31, 1998 | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |

The accompanying notes are an integral part of the financial statements.

PIKE COUNTY
CHARLES KEESEE, SHERIFF
NOTES TO THE FINANCIAL STATEMENTS
December 31, 1998

Note 1. Summary of significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

A fee official in counties with a population over 70,000 has two funds established with the state for the deposit of fees collected. Seventy-five percent (75%) of the fees collected is deposited in a Sheriff's operating fund and used for office expenses of the fee official. The remaining twenty-five percent (25%) of fees collected is deposited to the county fiscal court fund and periodically paid to the county government. These funds are closed at the end of each four-year term by paying the balances to the respective county government.

B. Basis of Accounting

The financial statements have been prepared on a cash basis of accounting pursuant to KRS 68.210 as recommended by the State Local Finance officer. Revenues and related assets are generally recognized when received rather than when earned. Certain expenses are recognized when paid rather than when a liability is incurred, including capital asset purchases. Certain other expenses are recognized when revenue and the related asset can be associated with corresponding liability due another governmental entity.

The Attorney General issued a letter, which stated that some receipts of the fee official offices could be considered reimbursed expenses. All reimbursed expenses are receipted in the 75 percent fund.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentality's, obligations and contracts for future delivery or purchase of obligations back by good faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

PIKE COUNTY
CHARLES KEESEE, SHERIFF
NOTES TO THE FINANCIAL STATEMENTS
December 31, 1998
(Continued)

Note 2. Employee retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS) pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by stature. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 8.65 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Retirement System's annual financial report which is a matter of public record.

Note 3. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to law, the depository institution should pledge sufficient collateral which, together with FDIC insurance, equals or exceeds the amount on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met and as of December 31, 1998, the Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities or provided surety bonds which named the Sheriff as beneficiary on the bonds.

Note 4. Health Insurance Premiums

KRS 61.405 allows county fee officials to purchase twelve (12) months of health insurance coverage for their employees, if excess fees are available. Therefore, the expenditures are allowable. The Attorney General has issued opinion 92-108, which claims the statute is unconstitutional and discriminatory. The Attorney General also issued OAG 94-11 on February 25, 1994, stating health or medical insurance provided uniquely for an official and not in connection with a government program providing benefits to all county employees would be personal in nature.

Note 5. Forfeiture Fund

The Pike County Sheriff maintains an official bank account for moneys obtained from seizure and sale of property used in illegal drug activities. The purpose of this fund is to purchase necessary equipment for operating the Sheriff's office. The balance of the account as of December 31, 1998, was \$14,677.

PIKE COUNTY
CHARLES KEESEE, SHERIFF
NOTES TO THE FINANCIAL STATEMENTS
December 31, 1998
(continued)

Note 6. Carrying Concealed Deadly Weapons Permits

The Pike County Sheriff Maintains an official bank account for receipts collected for Carrying Concealed Deadly Weapons Permits. The purpose of this fund is to distribute the appropriate fees to the Kentucky State Treasurer and the Sheriff's fee account for applications received. The balance of this account as of December 31, 1998, was \$1,022.

COMMENT AND RECOMMENDATION

PIKE COUNTY
CHARLES KEESEE, SHERIFF
COMMENT AND RECOMMENDATION

Calendar Year 1998

INTERNAL CONTROL – REPORTABLE CONDITIONS AND MATERIAL WEAKNESSES

1. The Sheriff Has A Lack Of Adequate Segregation Of Duties

We noted the lack of an adequate segregation of duties for the internal control structure and its operation that, in our judgment, is a reportable condition under standards established by the American Institute of Certified Public Accountants. There is a limited staff size, which prevents adequate division of responsibilities. The Sheriff has statutory authority to assume the role as custodian of monetary asset, as well as recorder of transactions and preparer of financial statements.

Management's Response:

Management concurs with auditor's recommendation.

Prior Year

The prior year audit contained a comment that the Sheriff had a lack of adequate segregation of duties.

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Honorable Karen Gibson, County Judge/Executive
Honorable Charles Keesee, Pike County Sheriff
Members of the Pike County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the Pike County Sheriff As of December 31, 1998, and have issued our report thereon dated July 17, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Pike County Sheriff's financial statements as of December 31, 1998, are free of material misstatement, we performed tests of compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Pike County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying comment and recommendation.

- The Sheriff Has A Lack Of Adequate Segregation Of Duties

Honorable Karen Gibson, County Judge/Executive
Honorable Charles Keese, Pike County Sheriff
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Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statements Performed In Accordance with Government Auditing Standards
(Continued)

- A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We consider a reportable condition described above to be a material weakness.

This report is intended for the information of management. However, this report, upon release by the Auditor of Public Accounts, is a matter of public record and its distribution is not limited.



Berger & Ross, PLLC

Audit fieldwork completed –
July 17, 2000

